

Department of Social and Health Services

DP Code/Title: M2-TL HIPAA Contingency

Program Level - 080 Medical Assistance

Budget Period: 2003-05 Version: H2 080 2003-05 2004 Sup-Agency Req

Recommendation Summary Text:

This decision package requests contingency funding for meeting potential additional costs associated with implementation of the Health Insurance Portability and Accountability Act (HIPAA) Rule 1, Standards for Electronic Transactions. Statewide result number 5.

Fiscal Detail:

Operating Expenditures

	<u>FY 1</u>	<u>FY 2</u>	<u>Total</u>
Overall Funding			
001-1 General Fund - Basic Account-State	1,204,000	0	1,204,000
001-C General Fund - Basic Account-DSHS Medicaid Federa	5,593,000	0	5,593,000
Total Cost	6,797,000	0	6,797,000

Staffing

	<u>FY 1</u>	<u>FY 2</u>	<u>Annual Avg</u>
Agency FTEs	37.0	0.0	18.5

Package Description:

HIPAA was signed into law August 1996. This reform covers health care fraud and abuse prevention, medical liability reform, and administrative simplifications. The Administrative Simplification portion of HIPAA is being implemented in three rules. This package requests funding to meet costs associated with reaching compliance with Rule 1, which deals with standard electronic transactions and code sets by the implementation deadline of October 16, 2003. The intent of this rule is to increase the efficiency of processing health care financial transactions. All health care organizations, both public and private sector, are required to comply.

Under this rule, all health care organizations (health plans, health care providers, and health care clearing houses) must standardize electronic transactions between organizations. Rule 1 views the Department of Social and Health Services (DSHS) as functioning as both a health plan and a health care provider (Western State Hospital, Eastern State Hospital, and Child Study and Treatment Center).

The transactions named in this rule affect health care eligibility inquiry, enrollment, referrals, claims, payments, remittance advice, and claim status inquiry activities. DSHS performs all of these transactions in the day-to-day business. After October 16, 2003, all electronic transactions covered by the rule must be conducted in a standard fashion using new standard formats and code sets that will be regularly updated.

This decision package requests additional funding consistent with federal funding approved by Centers for Medicare and Medicaid Services (CMS) for contingency actions should the need arise. The majority of the additional request is for incremental costs associated with the CMS approved contingency plan. Additional funding is also requested for an increase in testing activities, provider support, and outsourced quality assurance.

Changes to Medical Assistance Administration (MAA) systems and processes related to the HIPAA will dramatically affect our business partners including other health plans and providers/submitters. The scope of these changes involves significant risk, therefore MAA has formulated a contingency plan so that, even in a "worst case scenario" MAA can ensure that clients have continued access to services and providers will continue to receive payment for those services. Should MAA or any of its business partners not be ready to conduct business in compliance with HIPAA standards, the Contingency Plan can be invoked to ensure continuity of operations. This request for contingency plan funding quantifies this "worst case scenario". The attachment, "HIPAA Contingency Plan Funding" summarizes the possible contingency plan actions, associated cost estimates, and the activities that would trigger invoking specific contingency plan actions.

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Actual costs will be incurred only to the extent it becomes necessary to invoke actions defined in the contingency plan. As HIPAA Rule 1 implementation unfolds, assumptions supporting this request will be reviewed and associated cost estimates revised to reflect current circumstances with amended amounts submitted either as an errata item in December 2003 or as an update in February 2004.

Narrative Justification and Impact Statement

How contributes to strategic plan:

The scope of these changes is sufficiently risky, therefore, MAA has formulated a contingency plan so that even in a "worst case scenario" MAA ensures that:

- Clients have continued access to services and;
- Providers will continue to receive payment for those services.

Performance Measure Detail

Program: 080

Goal: 14H Strengthen Information and Fiscal Monitoring Systems

No measures submitted for package

Incremental Changes

FY 1 FY 2

Goal: 15H Enhance Abilities to be an Effective Purchaser of Health Services

No measures submitted for package

Incremental Changes

FY 1 FY 2

Goal: 16H Enhance Capabilities to Accurately Determine Client Eligibility

No measures submitted for package

Incremental Changes

FY 1 FY 2

Reason for change:

Contingency planning for HIPAA implementation evolves according to the understanding of the scope of required system changes and the ability to successfully implement those system changes. This contingency plan request represents MAA's most recent assessment of potential "worse case" events that could be experienced while implementing Rule 1 system changes.

Impact on clients and services:

The impact of change on clients and services is significant:

- 1) Over 920,000 Washington residents rely on state and federal medical assistance programs administered by DSHS.
- 2) Over 45,000 medical providers serve DSHS clients.
- 3) Over 46 million medical claims are processed each biennium by DSHS.
- 4) DSHS spends over \$6 billion dollars per biennium on medical services.

The department must be able to continue delivery of client and providers services and payment while implementing HIPAA compliant electronic transactions after October 16, 2003.

Impact on other state programs:

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This HIPAA rule will affect all administrations across the department. Many health care organizations that interface with these programs (i.e., Regional Support Networks, Local Health Districts, County Health Departments, Indian Tribes, Area Agencies on Aging, and similar organizations) will also be affected. The affected organizations must alter their business models, operational procedures, and information systems to operate in a synchronized HIPAA compliant fashion, wherever standard electronic transactions occur. Funding for the contingency plan and additional provider compliance support will minimize the potential negative impacts which may be associated with implementation.

Relationship to capital budget:

Not applicable

Required changes to existing RCW, WAC, contract, or plan:

Not applicable

Alternatives explored by agency:

DSHS is taking a minimalist approach to HIPAA compliance using an enterprise model that results in making as few changes as possible in both our information systems and business models to achieve HIPAA compliance across the enterprise.

Current information systems will be modified (in lieu of replacement) to leverage limited resources, control scope, and manage risk. The development of new applications will occur on a very limited basis. Whenever possible, DSHS intends to use existing state resources and secure contractors only if capacity or expertise is not available. The department is focused on limiting risk from a technology standpoint by using technology, hardware, tools, and approaches that are proven at the industry level. Given the constraints of the budget, this is the only viable approach for the department.

Budget impacts in future biennia:

This funding is not expected to carry forward.

Distinction between one-time and ongoing costs:

All expenditures included in this request are one-time costs.

Effects of non-funding:

If funding is not provided, the department may be incapable of meeting its obligation as a health plan, including timely payment to health care providers. If providers are not paid in a timely fashion, over 920,000 clients statewide may not receive timely medical services. Thousands of businesses across the state would be impacted since DSHS spends over \$6 billion dollars per biennium on medical services. Failure to comply jeopardizes Medicaid funding and potentially carries financial sanctions on a per-transaction basis.

Expenditure Calculations and Assumptions:

Assumptions for this decision package include the following:

The budget estimates represented in this request are based on point-in-time information from the federal Department of Health and Human Services (DHHS) concerning the rule. This rule may be amended and transaction code sets will be regularly updated at the federal level. Any rule changes and code set updates will require additional analysis to determine impacts and related business and system changes.

Estimates for personnel, contracts, hardware/software, testing, training, and publications are based on current market

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conditions and prices. Costs included in this request exclude previously funded costs for existing FTEs.

A phased approach is being used to become compliant with HIPAA transaction and code set requirements. The phased approach is based on business priorities and will allow DSHS to continue business processes while implementing HIPAA requirements and maintaining the highest quality standards feasible. This approach spreads expenditures over a longer time frame than initially planned.

Estimated expenditures may change due to actual implementation of contingency plan actions, as well as for possible revisions to phased release schedule or changes to the dual support model. Following the October 2003 release, expenditures for the contingency plan will be monitored; if necessary an errata will be provided for updated estimates.

New FTEs are requested for the following:

6.0 FTEs - for Claims Processing to add temporary staff for anticipated increased workload associated with HIPAA Implementation;

24.0 FTEs - for Claims Processing; only if it is necessary to invoke the contingency plan action of adding a swing shift staff;

4.0 FTEs - for temporary staff to support provider outreach, testing support;

3.0 FTEs - for temporary staff to periodically perform HIPAA Implementation activities.

Generally it is assumed that due to other workload demands, existing internal resources will not always be available within required project time constraints during the implementation phase related to Rule 1.

See attachment - MAA M2-TL HIPAA Contingency.xls "for detailed summary of contingency plan trigger events, actions, and associated resource requirements".

<u>Object Detail</u>		<u>FY 1</u>	<u>FY 2</u>	<u>Total</u>
Overall Funding				
A	Salaries And Wages	1,866,000	0	1,866,000
B	Employee Benefits	466,000	0	466,000
E	Goods And Services	4,465,000	0	4,465,000
Total Objects		6,797,000	0	6,797,000

DSHS Source Code Detail

Overall Funding		<u>FY 1</u>	<u>FY 2</u>	<u>Total</u>
Fund 001-1, General Fund - Basic Account-State				
<u>Sources</u>	<u>Title</u>			
0011	General Fund State	1,204,000	0	1,204,000
Total for Fund 001-1		1,204,000	0	1,204,000
Fund 001-C, General Fund - Basic Account-DSHS Medicaid Federa				
<u>Sources</u>	<u>Title</u>			
19UG	Title XIX Admin (75%)	5,593,000	0	5,593,000
Total for Fund 001-C		5,593,000	0	5,593,000
Total Overall Funding		6,797,000	0	6,797,000